Maine Tax Reform (LD 1495) Frequently Asked Questions

The State Planning Office answers your questions about tax reform.

In June, 2009 Governor Baldacci signed a tax reform bill (LD 1495) into law. The new law lowers the top income tax rate and reduces the tax burden on Maine residents by almost $55 million. The law changes the current tax structure in a number of ways:

- Lowers the top income tax rate from 8.5 %to 6.5% for income up to $250,000;
- Lowers the top income tax rate for the portion of any income above $250,000 from 8.5% to 6.85%;
- Broadens the sales tax base, meaning more goods and services will be subject to the existing 5% sales tax rate;
- Makes a portion of the Earned Income Tax Credit refundable for lower and middle income families;
- Increases funding for tourism marketing; and
- Is revenue-neutral, meaning it doesn't generate increased revenue for the State.

Frequently Asked Questions:

1. **I have a family, and we aren't rich. How will these tax reforms affect me and my family?**

The vast majority of families will have more money in their pockets than they did before. 9 out of 10 Maine residents will pay less in taxes, with $160 being the average tax break. 97% of families making less than $33,000 a year will pay less in taxes.

Maine Revenue Services has made available an on-line calculator for you to see how tax reform affects your family. Go to
http://www.maine.gov/revenue/incomeestate/1040/taxreformindividual.htm
and click on "informational calculator" to enter your personal tax information and get an estimate of how the new tax laws will affect you.

2. **How does this law affect working people and middle class families?**

LD 1495 gives lower-income and middle-income Mainers more disposable income. Almost 95% of families with income less than the Maine median household income of $46,000[1] will see an overall reduction in their taxes as a result of the new laws. 99% of the lowest income Maine families will pay less in taxes.

The new tax law also makes certain tax credits partially refundable which will help lower-

[1] U.S. Census Bureau, 2008 American Community Survey

income and middle-income families. Some families will now be eligible for tax refunds, even if they don't owe any taxes.

3. Won't the reductions in income taxes simply be offset by increases in sales taxes?

No. The reduction in incomes taxes for Maine residents will exceed what is paid in new sales taxes, so that over 87% of Mainers will see an overall reduction in their tax burden.

4. My family has no earned income and we don't file a tax return. Does that mean we'll be paying more sales taxes and won't get the break on income taxes?

No. The Governor and Legislature made a special effort to address exactly this situation. Under the old tax system, families with little or no earned income who didn't owe taxes weren't eligible for a tax refund either. Under the new law, these families can now file a tax return and receive up to $150 in tax refunds, even if they don't owe any taxes.

5. I'm retired and I don't file a tax return. Am I just stuck paying more sales taxes and not getting any breaks on my income taxes?

No. See question 3 above.

6. I'm a small business owner and will have to collect sales tax on the services I sell. Won't these sales tax changes hurt my business?

The sales tax changes have the potential to affect demand for your products and/or services. However, many of the goods and services affected by the sales tax changes are relatively insensitive to small price changes. Lodging and car repairs, for example, are important things that people are not likely to give up just because of a small increase in the price they pay.

Also, remember that if you're like most small business owners, you file an individual income tax return. So you'll benefit under the new tax law because you'll pay less in income taxes.

Plus, a strong Maine economy is good for all businesses, whether or not they collect sales tax. Lowering income tax rates is a proven incentive for new businesses to come to Maine and for existing businesses to invest in Maine.

7. How will tax reform affect the Maine economy?

Maine people will pay about $55 million less in taxes under the new tax law. Much of this money will be spent in the Maine economy, supporting jobs and paying wages. The State Planning Office used an economic model to estimate that LD 1495 would support about 750 jobs, $20 million in earnings, and contribute $42 million to Maine's Gross Domestic Product.

8. Will the increase in taxes on meals and lodging cause more tourists to go to other places like New Hampshire or Canada?

No. First of all, sales taxes on meals and lodging are higher in Canada and New Hampshire than what became law under LD 1495 for Maine. Second, and more importantly, Maine attracts tourists because it's unique with all of its natural and cultural attractions. 84% of visitors to Maine are repeats, with the average overnight visitor having come to Maine 14 times in the past five years.[i] Tourists come to Maine because of our "quality of place"- cultural and natural amenities such as open space, vibrant downtowns, recreational opportunities, etc., and won't mind paying a small amount more for a meal or overnight stay.

9. The new law increases the sales tax to pay for the reduced income taxes… right?

Not exactly. The regular sales tax will still be 5%, but it will be expanded to include more goods and services, such as movie, theater, and concert tickets. The meals and lodging tax will increase from 7% to 8.5%, and some other special taxes, such as taxes on automobile rentals, will also increase. LD 1495, by design, expands the sales tax base to several items disproportionately paid for by out-of-state visitors who buy meals at restaurants, check into hotel rooms and bed and breakfasts, and purchase tickets for tours and events. So, even though the total amount of taxes collected won't change, the amount that Maine residents pay will go down.

This means that for Maine residents, Tax Reform is also Tax Relief.

10. Will the state be taking in any more money under the new tax reform law?

No. This law is "revenue-neutral" – the state will not see any additional revenue from taxes.

11. I've seen statistics on how many people will pay less in taxes under this law. How does Maine Revenue Services figure this out?

Maine Revenue Services uses data from past tax returns and information about the buying habits of Maine consumers to create these estimates. More technical information about their process— including tables showing the impact of tax reform for various income levels and an individual tax calculator— can be found at http://www.maine.gov/revenue.

12. I've heard about a Maine resident tax credit…what's that?

That's one of the ways LD 1495 benefits Maine people. Because the cost of living is higher in Maine, Maine residents can receive a credit on their income tax return not available to people who earn income in Maine but reside outside of Maine. The Maine Attorney General's Office helped the Legislature ensure that this tax credit is constitutional. It's another way to encourage people to live and work in Maine.

13. Will I be able to deduct my mortgage interest, medical expenses, and other deductions I'm used to on my income tax return?

Yes, but the accounting is a little bit different. The Maine standard and itemized deductions have been replaced with a system of household credits for Maine residents. Under this new system, 95% of Maine resident taxpayers will pay a smaller amount of income taxes than they would have with the old system.

You can choose one of two household credits, similar to the old tax system:

- The Refundable household credit is like the standard deduction from the old system. There is a base credit amount for each type of filer (single, head of household, married filing separately, and married filing jointly). This base credit amount gets higher for each exemption claimed on your federal return.
- The Alternative refundable household credit, on the other hand, may be used by taxpayers who have federal itemized deductions. The base credit amount for the alternative household credit is a percentage of the amount of itemized deductions on your federal tax return plus a fixed amount for each type of filer (single, married, etc.).

More technical information can be found at http://www.maine.gov/revenue.

[i] David Peterson Associates, 2008. Retrieved from: http://www.visitmaine.com/resource/visitmaine/powerpoint/tourism/2008-Maine-Visitor-Research.ppt